

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 NEA-06 IO-04 H-01 L-01 PRS-01

PA-01 USIA-06 SP-02 AID-05 EB-04 NSC-05 RSC-01

CIEP-01 SS-15 STR-01 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03 LAB-01 SIL-01

AGR-05 /081 W

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P 040704Z NOV 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8073

INFO AMMBASSY JAKARTA PRIORITY 4074

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USADB

FOR NAC AGENCIES

E O 11652: ADS, DECLAS 2-4-75

TAGS: EAID, EFIN, ID

SUBJ: PROPOSED ADB LOAN TO INDONESIA FOR EAST JAVA AGRICULTURAL
CREDIT PROJECT

REF: TRSY P 301555Z OCT 74

SUMMARY: ADB MANAGEMENT PROPOSES \$2.7 MILLION EQUIVALENT LOAN
FROM SPECIAL FUNDS RESOURCES TO INDONESIA FOR RELENDING TO BANK
RAKYAT INDONESIA (BRI) AND DIRECTORATE GENERAL OF COOPERATIVES
(DCG) TO FINANCE FOREX COST OF LOANS TO ABOUT 200 VILLAGE
DEVELOPMENT AGENCIES (BUUD'S) AND VILLAGE COOPERATIVES (KUD'S)
TO ACQUIRE AGRICULTURAL MACHINERY AND OTHER FACILITIES FOR PRO-
DUCTION, PROCESSING, STORAGE, TRANS-PORT AND MARKETING OF AG
PRODUCTS AT FARM LEVEL;
TRAINING AND CONSULTING SERVICES. END SUMMARY.

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1. ADB DOC R99-74 WITH ATTACHMENTS DESCRIBING PROPOSED
LOAN POUCHED ADDRESSEES OCT. 25. BOARD CONSIDERATION
SCHEDULED NOV. 14.

2. ADB MANAGEMENT PROPOSING \$2.7 MILLION LOAN FORM
SPECIAL FUNDS RESOURCES TO GOVT OF INDONESIA (GOI) FOR
RELENDING TO BRI AND DGC TO BE USED FOR SUBLOANS TO
ABOUT 200 BUUD'S AND KUD'S IN EAST JAVA. PROCEEDS WILL
FINANCE FOREX COST OF FINANCING IRRIGATION PUMPS SETS;
FARM MACHINERY INCLUDING POWER TILLERS AND SPRAYERS;
A CENTRAL WORKSHOP; SOTRAGE FACILITIES; TRUCKS; IMPROVED
TRAINING FACILITIES AND CONSULTANT SERVICES. PROPOSED
TERMS ARE 40- YEAR AMORTIZATION INCLUDING 10-YEAR GRACE
PERIOD, ONE PERCENT SERVICE CHARGE. GOVT OF INDONESIA (GOI)
TO BE BORROWER, BANK RAKYAT INDONESIA TO BE EXECUTING AGENCY.

3. GOI HAS SOUGHT WITH SOME SUCCESS INCREASE AG PRODUCTION,
ESPECIALLY RICE INTENSIFICATION PROGRAMS WHICH INCREASED
AVG YIELD/HECTAR FROM 3.3 TO 5.2 TONS FOR TOTAL OF 14.5
MILLION TONS IN 1973, A 24 PERCENT INCREASE DURING FIRST
FIVE-YEAR PLAN. HOWEVER RICE PRODUCTION HAS DECLINED
1972/73 DUE TO SEVERE DROUGHT WHICH AFFECTED OTHER FOOD
CROPS AS WELL (MAIZE, CASSAVA, SWEET POTATOES, SOYBEANS).
GOI INCREASED RICE IMPORTS 1972/73 TO ABOUT 1.2
MILLION TONS TO OFFSET SHORTAGE BUT INTENDS CONTINUE
GIVING HIGH PRIORITY IN SECOND FIVE-YEAR PLAND (1974-79)
TO FOOD PRODUCTION ESPECIALLY RICE INTENSIFICATION BY
EXPANDING PROGRAMS TO NEWLY IRRIGATED RAINFED RICEFIELDS,
COASTAL AND DRY AREAS, WITH GOAL OF INCREASING PADDY CUL-
TIVATION FROM 8.4 MILLION HECTARES YIELDING 15 MILLION
TONS OF RICE IN 1974 TO 9 MILLION HECTARES YIELDING 18
MILLION TONS BY 1978.

4. IN FIRST FIVE-YEAR PLAN, BRI GIVEN TASK OF PROVIDING
AG CREDIT COMPONENT IN INTEGRATED BIMAS PROGRAM (SHORT
TERM CREDIT, AG INPUTS AND EXTENSION SERVICES), HOWEVER
SUSTAINED AG PRODUCTION INCREASES WILL REQUIRE REORGANIZED
AG INFRASTRUCTURE INCLUDING MEDIUM AND LONG TERM CREDITS
FOR RURAL SECTOR. BRI CHARGED WITH THIS TASK, WAS RECIPIENT
OF 1971 \$3.4 MILLION MODERNIZATION LOAN FROM ADB FOCUSED
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LARGELY ON UPGRADING BRANCH OPERATIONS THROUGH MECHANIZATION,
STAFF TRAINING, REORGANIZATION. AS OF 30 SEPT 1974,
9 EAST JAVA BRI BRANCHES HAD BEEN MECHANIZED, WITH REMAINING
22 EAST JAVA BRANCHES TO BE MECHANIZED BY END OF 1974. BRI
CONTINUED TO RECEIVE ADVISORY CONSULTANT SERVICES THROUGH
MARCH 1974 BY REALLOCATION PORTION OF PROCEEDS ORIGINAL
ADB LOAN, BRI, REORGANIZED IN JAN 1974, NOW HAS 13 REGIONAL
OFFICES, 220 BRANCH OFFICIES; 501 MOBILE UNITS,

2121 VILLAGE UNITS, AND SUPERVISES 4774 VILLAGE BANKS
AND 3185 PADDY BANKS; BRI HAS TOTAL OF 13,210 EMPLOYEES.

5. BRI'S RATE OF RETURN ON NET WORTH HAS INCREASED TO
17 PERCENT IN 1973 (COMPARED TO 2-3 PERCENT PREVIOUSLY).
ADMIN EXPENSES AS PERCENT OF LOANS OUTSTANDING DECREASED
TO 6.7 PERCENT IN 1973 (FROM 9.1 IN 1971); INTEREST MARGIN
OF 8 PERCENT FULLY COVERS OPERATIONAL EXPENSES; OVERDUES
AS PERCENT OF OUTSTANDING LOANS DOWN TO 18.3
PERCENT IN 1973 (FROM 20 PERCENT IN 1972), BUT ARREARAGES
STILL CONSIDERED UNDULY HIGH AND ATTRIBUTED TO POOR
EVALUATION AND LOAN SANCTION PROCEDURES. BRI ASSURES IT
WILL CONTINUE TO IMPROVE AND REPORT TO BANK PERIODICALLY
ON STEPS TAKEN (SIDE LTR NO. 4, PARA 9). ALSO, GOVT WILL
PAY RP 300 MILLION TO AUTHORIZED CAPITAL OF BRI BY 1 JULY
1975 (SIDE LTR NO. 4, PARA 20). TOTAL LOAN DISBURSEMENTS
IN 1973 WERE RS 386.1 BILLION, A 200 PERCENT INCREASE OVER
1971, HOWEVER 98.8 PERCENT WERE SHORT-TERM LOANS WITH
MATURITIES UNDER ONE YEAR.

6. BY AGREEMENT WITH BANK, BRI UNDERTAKES TO CONCENTRATE
IN FUTURE ON SMALL INVESTMENT CREDITS AND PERMANENT
WORKING CAPITAL FOR AG AND RURAL SECTORS (PROJ. AGMT -
SEC 3.01 (B); LOAN AGMT, SEC 6.01 (C)) (GOI HAS
RESTRICTED BRI LENDING TO COMMERCIAL SECTORS, I.E.
TOURISM, HOTELS, ETC.), AND WILL FOCUS ON FINANCING
OF BUUD'S AND KUD'S. BOTH MAKE SUPERVISED AG PRODUCTION
LOANS, MARKETING LOANS, DISTRIBUTE FERTILIZER, OPERATE
RICEMILLS, AND ACQUIRE EQUIPMENT SUCH AS PUMPS, TRUCKS

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CIEP-01 SS-15 STR-01 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03 LAB-01 SIL-01

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AND SPRAYERS. HOWEVER BUUD'S GAINED BAD REPUTATION THROUGH THEIR USE BY GOVT TO SERVE AS COMPULSORY RICE PURCHASE AGENTS WITH GOI-IMPOSED "TARGET" LEVELS, A PROGRAM GRADUALLY BEING DISCONTINUED. GOI GOAL IS TO EXTEND FUNCTIONS OF BUUD'S TO BECOME MULTI-PURPOSE AG COOPS AND RESPONSIBILITY FOR OPERATION OF VILLAGE IRRIGATION PUMP SCHEMES HAS BEEN TRANSFERRED TO THEM FROM AG DEPT.

7. PROJECT WAS INITIATED WITH INITIAL GOI REQUEST TO BANK TO FINANCE PUMP IRRIGATION PROJECT IN EAST JAVA. SUBSEQUENTLY, GOI REQUESTED SCOPE OF PROJECT BE ENLARGED TO INCLUDE POWER TILLERS, STORAGE AND TRANSPORT, AS WELL POSSIBLE INCLUSION OF AG COOPS - BUUD'S AND KUD'S - TO PROVIDE AG CREDIT. PROJECT WILL THEREFORE EXTEND CREDIT TO 200 BUUD'S AND KUD'S IN 16 EAST JAVA DISTRICTS TOPROCUR 500 UNITS IRRIGATION PUMP SETS; 100 UNITS POWER TILLERS; 3500 SPRAYER UNITS; 75 TRUCKS; AND CONSTRUCTION OF A CENTRAL MAINTENANCE WORKSHOP; 100 STORAGE FACILITIES; AND IMPROVEMENT OF TRAINING FACILITIES AT MALANG COOPERATIVE TRAINING CENTER AND SERVICES OF 24 MAN/MOS OF LIMITED OFFICIAL USE

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CONSULTANTS IN MECHANICAL AND IRRIGATION ENGINEERING. FARM MACHINERY AND FACILITIES TO BE MADE AVAILABLE TO LOW INCOME FARMER-MEMBERS.

8. PUMPS TO BE CETRIFUGAL LOW-LIFT TYPE (MAX. 6.8 METER SUCTION HEAD) OR FOR SURFACE WATER IN 6.5 TO 15 HP RANGE; SPRAYERS OF MANUAL TYPE; STORAGE UNITS 250 TONS EACH, DAMP-PROOF, SOME WITH MECHANICAL DRYERS; TRUCKS DIESEL POWERED, 1 TO 2.5 TON CAPACITY; WORKSHOP TO BE IN SURABAYA OR MALANG, TECHNICAL ASSISTANCE NOW BEING PROVIDED BY UNDP/ILO IN COOPS TO BE EXTENDED TO DGC TRAINING CENTER AT MALANG TO UPGRADE STAFF TRAINING OF BUUD'S AND KUD'S, PROJECT TO PROVIDE MATERIALS, EQUIPMENT AND VEHICLES.

9. ALLOCATION OF LOAN PROCEEDS TO BE \$200,000 FOR MALANG CENTER AND CUNSLTANT SERVICES PLUS \$300,000 FOR CENTRAL WORKSHOP TO BE ALLOCATED TO DGC. REMAINING PROCEEDS OF LOAN TO BE RELENT BY GOI TO BRI AT 4 PERCENT INTEREST FOR FURTHER LENDING TO BUUD'S AND KUD'S AT 12

PERCENT INTEREST TO FINANCE PUMP SETS (\$645,000); POWER TILLERS (\$240,000); SPRAYERS (\$126,000); STORAGE (\$315,000); TRUCKS (\$270,000) WITH OVERALL CONTINGENCY OF \$604,000 (TOTAL \$2.7 MILLION); LOCAL CURRENCY COSTS OF PROJECT INCLUDING CONTINGENCY ESTIMATED AT \$4.7 MILLION EQUIVALENT TO BE PROVIDED TO BRI AND DGC BY GOVT (LOAN AGMT, SEC 4.02; SIDE LTR NO. 4, PARA 16). BRI TO RETAIN REFLOWS OF INTEREST AND PRINCIPAL REPAYMENTS (PROJ AGMT, SEC 2.03) FOR SUBSEQUENT RELENDING IN CONSULTATION WITH BANK. GOVT TO GUARANTEE REPAYMENT OF SUBLOANS TO BRI (SIDE LTR. NO. 4, PARA 18).

10. IT SHOULD BE NOTED THAT ECONOMIC LIFE OF MOST LOAN-FINANCED COMPONENTS (ON BASIS OF WHICH SUBLOAN REPAYMENT PERIODS TO BRI HAVE BEEN ESTABLISHED) IS QUITE SHORT. WITH EXCEPTION OF STORAGE FACILITIES HAVING 20 YEARS AMORTIZATION AND WHICH ACCOUNT FOR ONLY \$315,000 OF TOTAL ADB LOAN, REPAYMENT PERIODS RANGE FROM ONLY 3. TO 5 YEARS FOR MOST ITEMS, THUS GIVING BRI ACCESS TO SUBSTANTIAL PORTION OF REFLOW OF LOAN PROCEEDS FOR 35 YEARS OR MORE. ACCORDINGLY, USADB INTENDS QUESTION BANK STAFF ON DETAILS DISCUSSIONS BANK INTENDS TO HAVE WITH GOI AND LIMITED OFFICIAL USE

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BRI RE UTILIZATION OF THESE CREDITS.

11. PROCUREMENT TO BE IN ACCORD BANK'S GUIDELINES TO BE CONDUCTED BY PROJECT OFFICE TO BE ESTABLISHED BY DGC. SUPPLY CONTRACTS TO BE GROUPED IN APPROPRIATE SIZE FOR INTERNATIONAL COMPETITIVE BIDDING; WITH CONTRACTS FOR EQUIPMENT AND MATERIALS LESS THAN \$100,000 BY INT'L SHOPPING. CIVIL WORKS CONTRACTS TO BE AWARDED BY COMPETITIVE BIDDING AMONG PREQUALIFIED LOCAL CONTRACTORS.

12. IRRIGATION AND POWER TILLER FACILITIES TO SERVE ESTIMATED 15,000 HECTARES (30,000 FARM FAMILIES) ENABLING EVENTUAL TRIPLE-CROPPING; INCREMENTAL YIELDS RESULTING IN GROSS INCOME INCREASE PER FAMILY ESTIMATED FROM RP 82,000 TO 101,000 (ON BASIS PRESENT LOW PURCHASE PRICE OF 30 PER KG OF PADDY). WITH ANNUAL INCREMENTAL PADDY PRODUCTION OF 30,000 TONS AND 16,500 TONS OF SECONDARY CROPS GENERATED BY PROJECT, SAVINGS IN FOREX TO IMPORT FOOD AT INT'L PRICES ESTIMATED AT \$4 MILLION ANNUALLY FOR RICE AND \$2 MILLION FOR SECONDARY CROPS. ECONOMIC RATE OF RETURN ESTIMATED AT 25.2 PERCENT, FINANCIAL RATE OF RETURN 21.1 PERCENT. PROJECT CONSIDERED FINANCIALLY AND TECHNICALLY FEASIBLE.

13. USADB AWARE NAC GUIDANCE PROVIDE REFTTEL AND, UNLESS INSTRUCTED TO CONTRARY, WILL VOTE AGAINST PROJECT LOAN.

SUBJECT TO CAVEAT NOTED PARA 10 ABOVE, ON BASIS OF NATURE OF PROJECT, HOWEVER, USADB SUPPORTS PROPOSAL AND WOULD URGE FAVORABLE NAC ACTION. CONSULTATIONS WITH OTHER DONOR COUNTRY DIRECTORS (WITH EXCEPTION GERMAN DIRECTOR CURRENTLY IN EUROPE) INDICATE NO WILLINGNESS TO SUPPORT U.S POSITION. GENERAL SATISFACTION WITH INOUE POSITION TO TERMINATE CONCESSIONAL LENDING TO INDONESIA AT END ADB'S FISCAL YEAR, I.E. DEC. 31, 1974, ESPECIALLY IN VIEW FACT THAT BOTH BANDUNG WATER SUPPLY AND SUBJECT PROJECT RELATIVELY SMALL AND SOCIALLY ORIENTED.

14. REQUEST U.S. MISSION JAKARTA'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULY 1972.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FARM EQUIPMENT, BANK LOANS, PROGRAMS (PROJECTS)
Control Number: n/a
Copy: SINGLE
Draft Date: 04 NOV 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
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Document Source: CORE
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Drafter: n/a
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Executive Order: N/A
Errors: N/A
Film Number: D740315-0492
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741173/aaaackmr.tel
Line Count: 298
Locator: TEXT ON-LINE, ON MICROFILM
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Review Authority: MorefiRH
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